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SENATOR MCCAIN FROM CDA STEVEN WHITE; STATE FOR SCA/INS, H

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SUBJECT: SCENESETTER FOR CODEL MCCAIN DECEMBER 2008 VISIT
TO BHUTAN

11. (U) Senators McCain, Lieberman, and Graham: On behalf of Ambassador Mulford and the Country Team, I warmly welcome you to Bhutan. Your visit comes at the end of a historic year for the small Himalayan nation, marked by the successful transition to a constitutional monarchy and the coronation of the Fifth King (Druk Gyalpo) on November 6. Bhutan, however, cannot rest on its laurels after this triumph since it faces several challenges in the coming years, including the impact of modernization on its unique culture, balancing relations with its behemoth and rising neighbors to the north and south, and resolving disagreements between its majority population and its ethnic Nepali minority. Your visit will further demonstrate U.S. support of Bhutan as it confronts these issues and continues to develop as a prosperous and stable democracy.

FLEDGLING DEMOCRACY IN THE LAND OF THE THUNDER DRAGON

2.(SBU) Former King Jigme Singye Wangchuck launched Bhutan's transition to a constitutional monarchy through over two decades of democratic reforms. In a strong showing of commitment to democratic values, Bhutan's voters went to the polls in large numbers (79.4 percent turnout) on March 24 and elected 47 members to the National Assembly. The Druk Phuensum Tshogpa (DPT) party secured an overwhelming victory of the People's Democratic Party (PDP) in the elections by winning 45 of the assembly's 47 seats. In an important symbolic step toward incorporating minorities into the mainstream, nine Nepali-speaking candidates were elected to the National Assembly in 2008. In July, the assembly formally adopted the constitution, marking the final step in Bhutan's historic transformation from an absolute to a constitutional monarchy.

13. (SBU) Bhutan is a least-developed country. History has shown that even wealthier nations face a difficult task inculcating democratic norms and establishing deep democratic roots. Democracy is very new to the Bhutanese and will take time to establish its roots in this isolated land. Most of the Bhutanese were satisfied with their absolute monarchy and had to be convinced by the former King of the need to make the transition. The U.S. Agency for International Development possesses expertise in numerous programs which support democracy and good governance. As Bhutan continues to democratize and decentralize power, some of these programs might be useful in providing technical assistance.

FOREIGN AFFAIRS: BIG BROTHER IS A LITTLE SMALLER

14. (SBU) India has historically "supervised" Bhutan's foreign policy as "heir" to the 1910 treaty signed between the British Raj and Bhutanese king, which provided for British noninterference in Bhutan's internal affairs in exchange for Bhutan's acceptance of British advice on its external relations. In 1949, independent India and Bhutan signed the Treaty of Peace and Friendship, which mirrored the British treaty by giving India the right to "guide" Bhutan in its foreign policy. In 2007, the two neighbors signed a new treaty removing the clause on the right to "guide" and allowing Bhutan to purchase military equipment from other nations. Nevertheless, India still retains enormous influence in Thimphu. Indian Prime Minister Manmohan Singh visited Thimphu in May 2008 and addressed the newly-elected parliament. Bhutanese Prime Minister Thinley returned the gesture when he made his first official trip abroad as prime minister to New Delhi in July 2008. Further illustrating the strong bilateral ties, India sent a high-powered delegation to the lavish November coronation ceremony, that included Indian President Pratibha Patil, Congress Party president Sonia Gandhi, and Congress Party heirs Rahul Gandhi and Priyanka Gandhi.

15. (SBU) Bhutan became a member of the United Nations in 1971 but has a very light international footprint, with formal diplomatic relations with less than two dozen nations and embassies in only six countries. Bhutan does not have diplomatic relations with the United States, China or any other P-5 member. Bhutan is a member of the South Asian Association for Regional Cooperation. The seven

NEW DELHI 00003016 002 OF 003

European nations with which Bhutan have diplomatic relations form the "Friends of Bhutan" group, together with Japan. These nations contribute generously to Bhutanese development and social programs. India is by far the biggest donor to Bhutan; as part of the Bhutan's tenth five-year plan, India donated USD 826 million to the tiny nation. The Bhutanese government has engaged in 17 rounds of high-level talks with Chinese officials regarding a border dispute over three Chinese-built roads, which allegedly encroach on Bhutanese territory.

16. (SBU) Bhutan and Nepal established diplomatic relations in 1983 and have held discussions in the past about a solution to 107,000 ethnic Nepali refugees who reside in UNHCR camps in Nepal. While most of the refugees claim Bhutanese citizenship, Bhutan alleges they are non-nationals or "voluntary immigrants" who forfeited their citizenship rights. Several insurgent groups have arisen from some of the refugee camps. Bhutan has blamed these groups for a series of bombings targeting the country in the lead-up to the 2008 parliamentary elections. Top Bhutanese officials told Ambassador Mulford their concerns that future instability in Nepal or Nepali Prime Minister Prachanda's reversion to old Maoist techniques could adversely affect Bhutan's security.

READY FOR PRAGMATIC, NOT FORMAL DIPLOMATIC RELATIONS, WITH THE UNITED STATES

17. (SBU) At this time, Bhutan does not seek formal diplomatic relations with the United States. Bhutan's policy is to move carefully in expanding formal diplomatic relations with the five nations that hold permanent seats on the UN Security Council (the P-5), because of what former King Jigme Singye Wangchuck calls "demarcation" problems of Bhutan's rugged border with China. The Bhutanese government is committed to achieving progress on this matter with the Chinese government over the next three years and does not desire to establish formal diplomatic relations with the P-5 nations during this period, since moves in this direction could be perceived as provocative

by China. In a private meeting with Ambassador Mulford in November, the former King stressed his nation's willingness to expand informal contacts with the United States such as through USAID projects and strengthening consular relations in whatever manner the USG thinks best.

¶8. (U) The US Embassy in New Delhi has consular responsibilities for Bhutan. The United States does not give foreign assistance to Bhutan. However, Bhutan participates in a regional program for South Asia sponsored by USAID that helps countries develop their power infrastructure. A few Bhutanese military officers have attended courses at the Asia-Pacific Center for Security Studies. The USG also brings several Bhutanese to the United States through our International Visitors program and through the U.S.-India Fulbright program. We are also developing a specific program for the placement of an American Fulbright scholar in Bhutan.

REFUGEE ISSUE: PROGRESS AND LACK THEREOF

¶9. (SBU) The USG has agreed to resettle at least 60,000 Bhutanese refugees of Nepali descent. Our resettlement program is one of the most positive aspects of our bilateral relationship, and the Bhutanese government--most recently the former King to Ambassador Mulford--repeatedly expresses its gratitude to us for helping in this matter. Bhutan, however, has not made progress, in repatriating those refugees who want to return to Bhutan. We have urged both Bhutan and Nepal to renew discussions regarding the facilitation of the voluntary return of eligible refugees to Bhutan.

NOT JUST ABOUT GROSS NATIONAL HAPPINESS ANYMORE

¶10. (SBU) Bhutan's economy is one of the worlds' smallest and least developed. It's based on hydroelectricity, tourism, agriculture, and forestry. Gross domestic product (GDP) for 2007, in purchasing power parity terms, is \$3.359

NEW DELHI 00003016 003 OF 003

billion USD. The Asian Development Bank suggests that GDP growth in Bhutan was as high as 14.4 percent in fiscal year 2007/08, but predicts it will slow to 7.2 percent in fiscal year 2008/09. The high rate in 2007/08 was in large part due to the completion of the Tala hydroelectric project. The Tala project provides Bhutan with its number one export, hydroelectric power, which it supplies to India. The Government of Bhutan plans to develop three more hydroelectric projects, which will help India meet its growing power demand. Bhutan's economy faces challenges of unemployment (estimated at 10 to 11 percent) and poverty (23 percent). Rugged terrain remains an obstacle to developing roads and other infrastructure.

¶11. (U) Bhutan's economy has recently prospered due to subregional economic cooperation efforts. In May 2003, Bhutan renewed its Bilateral Free Trade Agreement with Bangladesh, which is now Bhutan's second largest trade partner after India. Bhutan has applied for membership in the World Trade Organization and is developing clear legal and regulatory systems to promote business development. The country has plans to stimulate several of its business sectors, particularly IT and tourism. The government has also welcomed foreign assistance and guidance to address rising corruption related to increased revenues from the Tala project.

¶12. (U) Observers believe newly-crowned King Jigme Keshar Namgyal Wangchuck will be a stronger proponent for economic development and growth than his father, who coined the expression Gross National Happiness (GNH) in 1971 when Bhutan was criticized for slow economic growth. The new King has emphasized in his public speeches and interviews

the necessity for strong economic growth to build a vibrant democracy, demonstrating a clear shift in focus from GNH to GDP.

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